



# HOUSE BUDGET COMMITTEE

## Democratic Caucus

The Honorable John M. Spratt Jr. # Ranking Democratic Member

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214 O'Neill HOB # Washington, DC 20515 # 202-226-7200 # [www.house.gov/budget\\_democrats](http://www.house.gov/budget_democrats)

October 25, 2001

### Republican "Stimulus" Bill Provides Neither Security Nor Recovery

Dear Democratic Colleague:

Despite being titled the "Economic Security and Recovery Act of 2001," the Republican bill passed by the House on October 24 provides neither economic security nor recovery. It taps the Social Security surplus to give tax breaks largely to corporate and upper-bracket taxpayers; breaches the bipartisan Principles for Economic Stimulus developed by the Chairmen and Ranking Members of the House and Senate Budget Committees; and provides little true economic stimulus.

The bipartisan Economic Stimulus Principles were clear: To provide short-term recovery and long-term discipline, the stimulus should be sunset after one year and its cost should be offset in future years. But the House Republican bill violates these principles, costing \$274 billion over ten years (including increased interest on the national debt). Over the next ten years, the bill spends \$161 billion of Social Security payroll taxes, as if there were no baby boomers about to retire and earlier talk about saving the Social Security surplus was just political rhetoric. If, as seems likely, the "temporary" corporate tax cuts were not allowed to lapse, the bill's impact on the surplus would be even greater.

To make matters worse, the House Republican bill consists largely of corporate tax cuts once intended as round two of the president's tax cut agenda, and now re-labeled as economic stimulus. Indeed, the bill bends over backwards to help corporate taxpayers, repealing retroactively the corporate alternative minimum tax (AMT) and lowering taxes on multinational corporations. But the bill barely helps workers hurt by the recession, providing only minimal benefits to a limited number of unemployed workers.

The Democratic alternative offered an effective stimulus that provided meaningful help to those hurt by the recession. The package was paid for with budgetary offsets, not Social Security payroll taxes. Our plan thus combined effective short-term stimulus and long-term fiscal discipline. The Republican bill that was passed provided neither, as the attached analysis — prepared by the Democratic staff of the House Budget Committee — makes clear.

Sincerely,

John M. Spratt, Jr.  
Ranking Democratic Member



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### **Republican “Stimulus” Bill Provides Neither Security Nor Recovery**

The Economic Security and Recovery Act passed by the House on October 24 provides neither security nor recovery. It taps the Social Security surplus to provide tax breaks largely to corporate and upper-bracket taxpayers; breaches the bipartisan Principles for Economic Stimulus developed by the Chairmen and Ranking Members of the House and Senate Budget Committees; and lacks credibility as economic stimulus. This bill bends over backwards to help corporate taxpayers but barely stoops to help the average American taxpayer.

#### **The House Republican Proposal Spends the Social Security Surplus**

- The package costs \$274 billion over ten years (including debt service), and thus violates the bipartisan Stimulus Principle that “outyear offsets should make up over time for the cost of near-term economic stimulus.” In the absence of offsets, the bill will use \$161 billion of Social Security payroll taxes to pay for tax cuts largely for special interests.
- These calculations do not incorporate the cost of a number of other measures that have Republican backing, including a \$34 billion energy bill and a \$70 billion farm bill already passed by the House. Nor do they include inevitable increases for defense.
- The cost of the Thomas bill will grow if the temporary corporate tax provisions are made permanent, which is likely. This would require roughly an additional \$250 billion of Social Security money to provide long-term corporate tax benefits.
- The House Republican bill repeats all the mistakes of the first Republican budget. It leaves no margin for error, either in the form of possible downward revisions of the surplus or unforeseen needs, even though CBO’s August update cautioned that an additional erosion of more than \$2 trillion over the next ten years due to economic and technical factors is entirely plausible. If this downside scenario developed, the Thomas package combined with the \$1.6 trillion Bush tax cut would exhaust all of the Social Security surplus over the next decade, create structural deficits, and put the federal government back on a path of growing public debt.

### **The House Republican Proposal Is the President's Business Tax Bill Disguised as an Economic Recovery Bill**

- Many of the business tax cuts in the bill— for example, the retroactive repeal of the corporate alternative minimum tax (AMT) to 1986 — provide no incentive for corporations to invest now and will not contribute significantly to economic activity.
- The Economic Stimulus Principles stipulated that stimulus proposals should aim to sunset within one year and be targeted to those individuals likely to spend the additional dollars. But almost 40 percent of the ten-year cost of the Thomas package occurs after the first year, and far too little of the stimulus flows to middle-income Americans, who are most likely to spend the dollars they receive.
- The package spends the Social Security surplus in the long-run and is also likely to produce upward pressure on long-term interest rates, thus inhibiting the short-run effectiveness of monetary easing and also threatening the long-term growth of the economy. Here, too, the House Republican package violates the bipartisan Stimulus Principles, which state that “long-term fiscal discipline is essential to sustained economic growth” and that “[a]ny short-term economic stimulus should not result in higher long-term interest rates.”

### **The House Republican Proposal Hardly Helps Those Most Hurt by the Recession**

- The bipartisan Stimulus Principles pledged to “help those most vulnerable in an economic downturn,” but the Thomas package provides only minimal help to unemployed workers. The bill provides so much latitude to states that some unemployed workers might not receive any additional benefits. In all, CBO estimates that the Thomas package would likely result in less than \$2.3 billion in unemployment benefits in FY2002, while providing more than \$70 billion in corporate tax breaks that year.
- The package makes room for permanent tax cuts including a cut in the capital gains tax, retroactive repeal of the corporate AMT, and an extension of “subpart F” benefits for multinational insurance and finance corporations. All of these provisions violate the bipartisan agreement that stimulus provisions should sunset within one year. The retroactive repeal of the corporate alternative minimum tax would result in cash payments of more than \$20 billion to corporations—including over \$1 billion to one corporation, and a refund of hundreds of millions of dollars each to numerous others.
- The bill also accelerates the reduction in the 28 percent tax bracket contained in President Bush’s tax bill. This provision would worsen our long-term fiscal situation while providing no benefit to the 75 percent of American households with incomes below about \$70,000 per year, and providing its full benefit only to the top 5 percent of households with incomes above about \$130,000 per year.

- Even some Republicans have publicly recognized that the House package focuses on rewarding special interests rather than on stimulating a recovery. Senator Grassley has stated that House Republicans “have to be intellectually honest enough to recognize they cannot use a stimulus package to pass things they could not do otherwise.” Treasury Secretary Paul O’Neill has suggested that the Thomas bill is too big and has characterized it as “show business.”

**House Democrats' Plan Provides an Effective Stimulus That Is Fiscally Responsible**

- The Democrats’ economic stimulus alternative offered help to those who need it, without jeopardizing long-term fiscal discipline. Our package extended unemployment insurance and access to health insurance, and gave a tax rebate to working families. Our package was offset to protect the Social Security surplus and to return the budget to a path of long-term fiscal discipline as the economy recovers.

**WAYS & MEANS BILL DEPLETES THE SURPLUS AND WEAKENS SOCIAL SECURITY**  
(CBO Assumptions)

<b>EFFECT OF STIMULUS BILL</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2002-2011</b>
Bipartisan Budget Staff Unified Surplus	52	65	135	186	228	275	318	375	427	543	2604
Ways & Means Stimulus Bill	101	66	49	2	-19	-16	-12	-7	-3	1	162
Resulting Net Interest	2	7	11	13	13	13	13	13	13	14	112
Unified Surplus With Stimulus Bill	-52	-8	75	171	234	278	318	369	416	527	2329
Social Security Surplus (CBO August)	174	190	204	224	242	262	283	303	323	345	2550
Spending of Social Security Surplus (gross)	-174	-190	-129	-53	-8	0	0	0	0	0	-553
Spending of Social Security Surplus (net)	-174	-190	-129	-53	-8	16	35	66	93	182	-161
 <b>LIKELY FURTHER ACTION</b>	 <b>2002</b>	 <b>2003</b>	 <b>2004</b>	 <b>2005</b>	 <b>2006</b>	 <b>2007</b>	 <b>2008</b>	 <b>2009</b>	 <b>2010</b>	 <b>2011</b>	 <b>2002-2011</b>
Farm Bill (House Agriculture Committee)	2	7	8	8	8	8	8	7	7	6	70
Average Cost Of Natural Disasters (House)	2	4	5	6	6	6	6	6	7	7	55
Further Defense Request (HBC Estimate)	10	13	23	19	22	22	22	22	22	22	197
Energy Bill (House)	2	3	4	5	5	4	3	3	2	2	34
Tax Extenders (Permanent)	1	2	4	9	13	17	20	22	25	29	142
Enacted Tax Bill Sunsets	0	1	1	1	1	2	1	2	3	100	113
AMT (Negates Enacted Tax Bill Only)	0	0	0	2	12	22	30	39	48	54	208
Other (Faith-Based, PBOR, Veterans)	0	2	1	2	4	5	6	5	6	6	38
Resulting Net Interest	0	2	4	7	11	16	21	28	36	47	172
Unified Surplus With Further Action	-69	-42	24	112	152	176	200	235	261	253	1303
Spending of Social Security Surplus	-174	-190	-180	-112	-90	-86	-83	-68	-62	-92	-1137
 <b>CBO 25th PERCENTILE ECONOMICS</b>	 <b>2002</b>	 <b>2003</b>	 <b>2004</b>	 <b>2005</b>	 <b>2006</b>	 <b>2007</b>	 <b>2008</b>	 <b>2009</b>	 <b>2010</b>	 <b>2011</b>	 <b>2002-2011</b>
Further Downward Economic Revision	50	93	133	170	205	250	293	327	377	436	2334
Unified Surplus With Downward Revision	-119	-135	-109	-58	-53	-74	-93	-92	-116	-183	-1031
Spending of Social Security Surplus	-174	-190	-204	-224	-242	-262	-283	-303	-323	-345	-2550